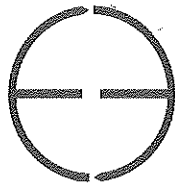


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TO: Members of the California Market Advisory
Committee

RE: Public Meeting of the California Market
Advisory Committee

DATE: June 12, 2007

FROM: Robert W. Lucas

- CCEEB appreciates all the excellent work of the Market Advisory Committee in reviewing and considering implementation options for a market based system under AB 32. We further appreciate your recommendations to the Air Resources Board in support of a well-designed market program, in particular:
 - The use of high quality offsets,
 - The importance of linkages to other systems,
 - The importance of Banking
 - The importance of regular review of program implementation.
- In addition to the release of your draft report, CCEEB would like to recognize the recent issuance of the EPRI (Electric Power Research Institute) Analysis of California Climate Initiatives.
- The EPRI study helps to demonstrate the importance of the role that a market program can make.
- EPRI concludes that implementation options based on a broad, market-based cap-and-trade program will likely be more cost-effective than a sector-specific program of command-and-control regulations, or an approach that covers only one part of the State's economy. Sector specific caps on CO₂, which is a proxy for command and control programs, is shown to cost 30% more or an additional \$70B in present value.

- Even under a pure trade scenario, but without offsets, EPRI projects a CO2 price to increase to \$100/ton of CO2 to meet 2020 target.
- CCEEB is pleased that the MAC recognizes the importance of high quality offsets to help reduce the cost of implementing AB 32. California's Climate Action Team Report (March 2006) suggests various in-state forestry activities could provide offsets that would augment the cap. EPRI used the CAT estimate and found that forestry offsets provide a cost-savings of \$33 billion through 2050, equal to a reduction of 14% of the \$229B present value of the pure trade scenario. As recognized by the MAC, allowing more flexibility through the use of offsets without geographic restriction would reduce the cost further. Concomitant with this observation we trust that the reference to biological processes on page 74 does not discourage the use of forests as offsets.
- CCEEB also notes that the MAC references to combining Cap and Trade with other policy requirements such as cap and trade on the transport sector coupled with the LCFS, may result in double regulation and requires further study to determine its efficacy. We note that the EPRI model is now available to be used as a tool to better understand the cost impacts of this hybrid regulation.
- With reference to the discussion of allowances on page 53 and elsewhere, CCEEB encourages the MAC to emphasize the importance of historical and performance based methods to determine the allocation of allowances in the beginning implementation years of AB 32. To the extent that auctions are used, they should be used as a supplement to the allocation of sufficient allowances to buffer the economic impact to affected generators, with auction revenues dedicated to supporting technology development, demonstration projects and other objectives that support a low carbon economy. In addition, CCEEB believes that it is essential that everyone in a given sector be treated the same so that allocations do not favor or disfavor comparably situated market participants.
- CCEEB notes that the EPRI study indicates that a safety valve would reduce the economic uncertainty of a market-based cap-and-trade system. The safety valve would be a way to limit economic costs if low-cost reduction options fail to achieve the

desired reductions. CCEEB urges the MAC to reconsider its recommendations on this point.

- Finally, CCEEB concurs with the MAC observations on pages 9 and 91 that a well-designed cap and trade program will yield significant reductions in emissions of local pollutants and will not result in emission hotspots or affect existing regulations for criteria pollutants.
- Thank you again for your effort and good work. CCEEB stands ready to work with the ARB in the design of a cap and trade program that will allow least cost implementation of AB 32 with ultimate linkage to regional, national and international trading programs.

Please contact Bob Lucas at (916) 444-7337 or bob.lucas@calobby.com if you wish to discuss this further.

Thank you.